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NQL

DRILLING TOOLS inc.

2000 ANNUAL REPORT



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CONTINUED GROWTH ON A GLOBAL SCALE

CORPORATE PROFILE

Mission Statement

NQL Drilling Tools Inc., through its divisions, subsidiaries, affiliates and business associates, manufactures and supplies downhole tools and services relating to drilling operations on a worldwide basis. NQL is committed to the highest quality of service, products and technology through R & D efforts targeted to customer needs and concerns, stringent quality assurance programs, and timely response to customer requests.

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NQL Drilling Tools Inc.

Based in Nisku, Alberta, NQL serves the oil and gas, utility and environmental industries around the globe.

The Company's Downhole Tools Division offers a variety of products, including downhole drilling motors, whipstocks and whipstock systems, drilling jars, shock subs and drilling bits as well as various other complementary products. NQL's core product, its Black Max motor, is designed to fit the various downhole conditions and requirements such as high-temperature holes or high-performance drilling. With more than 20 different bearing assemblies and more than 90 different configurations, Black Max provides the largest selection of downhole motors in the industry. NQL's Oilfield Services Division provides specialized downhole fishing and wireline services through the Company's wholly owned subsidiary, CanFish Services Inc. NQL's Manufacturing Division provides in-house machining and manufacturing services for NQL's internal use as well as for third-party oil and gas customers.

NQL's shares trade on the Toronto Stock Exchange under the symbol "NQL.A". On March 19, 2001 NQL was added to the TSE 300 Composite Index.

Any reference to NQL throughout this annual report also includes any of its subsidiaries and divisions.

Black Max is a registered trademark of Black Max Downhole Tools Ltd. Beaver is a registered trademark of NQL Drilling Tools Inc.

2000 Highlights

FIRST QUARTER

- NQL records revenues of \$19.3 million, the highest quarterly revenues in the Company's history.
- NQL closes the acquisition of CanFish Services Inc., a privately owned oilfield services company which provides complete open and cased hole fishing, downhole milling and pipe recovery services.
- NQL enters the Middle East market with the opening of a facility in Dubai, United Arab Emirates.

Revenues

(\$000s)



¹ 16-month period

SECOND QUARTER

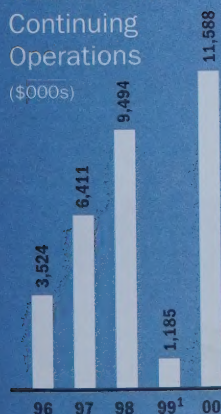
- NQL's machine shop in Santa Cruz, Bolivia, operated by the Company's 70% owned affiliate NBJ Manufacturas Petroleras (Bolivia) S.A., begins operations. NQL expects to be able to manufacture 40% to 50% of its South American spare part requirements in this facility within the next two years.
- NQL begins operations in Neuquen, Argentina.

RESULTS

\$000s except per share amounts and outstanding shares	Year ended December 31, 2000	16 months ended December 31, 1999	Year ended August 31, 1998
Sales	\$ 87,019	\$ 51,551	\$ 61,289
Earnings			
Continuing Operations (before goodwill amortization)	\$ 12,692	\$ 1,647	\$ 9,832
Continuing Operations (after goodwill amortization)	\$ 11,588	\$ 1,185	\$ 9,494
Net	\$ 11,588	\$ 1,185	\$ 9,807
Earnings Per Share			
Continuing Operations (before goodwill amortization)	\$ 0.67	\$ 0.10	\$ 0.66
Continuing Operations (after goodwill amortization)	\$ 0.61	\$ 0.07	\$ 0.64
Net	\$ 0.61	\$ 0.07	\$ 0.66
Cash Flow			
Continuing Operations	\$ 22,590	\$ 10,303	\$ 16,033
Net	\$ 22,590	\$ 10,303	\$ 16,033
Cash Flow Per Share			
Continuing Operations	\$ 1.19	\$ 0.64	\$ 1.07
Net	\$ 1.19	\$ 0.64	\$ 1.07
Long-term Debt	\$ 10,292	\$ —	\$ 4,557
Shareholders' Equity	\$ 109,000	\$ 86,714	\$ 67,732
Weighted Average Shares Outstanding	18,984,187	16,093,341	14,918,665

Income from Continuing Operations

(\$000s)



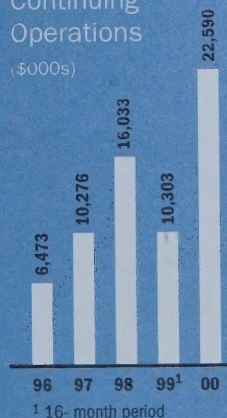
¹ 16-month period

THIRD QUARTER

- NQL records revenues of \$25.0 million, establishing record quarterly revenues for the second time in 2000.
- NQL closes the acquisition of Ackerman International, Corp., a privately owned company which supplies new and used drilling bits to the drilling industry world wide. Because Ackerman is a 50% partner with NQL in V.O.F. ACE Downhole Tools and Services ("ACE") based in The Netherlands, the acquisition gives NQL 100% ownership of ACE.
- NQL commences work on the expansion of its manufacturing facilities, NBJ Manufacturing Ltd. in Nisku, Alberta.

Cash Flow from Continuing Operations

(\$000s)



¹ 16-month period

FOURTH QUARTER

- NQL opens a CanFish facility in Whitecourt, Alberta.
- NQL achieves record revenue, cash flow and net earnings for 2000.

The past year showed improvements in almost every aspect of the Company's operations.



Dean Livingstone, President & CEO

I am pleased to present the financial and operational results of NQL Drilling Tools Inc. for the year 2000. With strong commodity prices giving rise to increased industry activity levels and, consequently, increased demand for NQL's products and services, 2000 was characterized by improvements in almost every aspect of the Company's operations. NQL demonstrated growth on a number of fronts, including new products, new service offerings and geographical expansion.

Industry Conditions in 2000

Compared to the past few years, commodity prices were buoyant in 2000. The benchmark West Texas Intermediate crude averaged US\$30.28 per barrel for the year, an increase of 56% from US\$19.30 in 1999. Canadian oil prices followed suit, increasing 60% to Cdn\$44.29 from Cdn\$27.61 in 1999. As well, North American natural gas prices increased substantially, with Canadian spot prices averaging \$5.10 per gigajoule at the AECO C Hub, an 82.7% increase from \$2.79 in 1999.

The increased demand for oil and gas sparked a significant increase in oil and gas exploration and development activity. In Canada, 16,507 wells were

Corporate Values

CUSTOMER RELATIONSHIPS

We strive to provide services and products that meet our customers' requirements. To do this, we focus on building long-term relationships with our customers by knowing their business and listening to their concerns.

INTEGRITY

Integrity is the foundation for all our actions. It means being honest and trustworthy in our actions, in dealing with employees, customers and suppliers with respect, and in maintaining high ethical standards in all business actions.

ADAPTABILITY

We are open to change and are flexible and adaptable in response. Each of us takes the responsibility to seek out new ways to solve problems and to generate opportunities to achieve personal and Company progress.

completed, a 56% increase over the 10,595 wells completed in 1999. In the U.S., 27,819 wells were completed, a 46% increase over 1999.

Rising demand for electrical power caused an increase in construction activity related to utilities industries, such as river and road crossings for electrical cables and fibre optics, activities which use NQL's products and services.

NQL in 2000

The general increase in activity in turn created an increased demand for NQL's products and services, a demand which was reflected in our financial results. For the year ended December 31, 2000 NQL recorded revenues of \$87.0 million, an increase of 69% over the \$51.6 million recorded for the 16 months ended December 31, 1999 and an increase of 42% over the \$61.3 million recorded for the year ended August 31, 1998.

Net earnings for the year ended December 31, 2000 totalled \$11.6 million, an increase of 867% over the \$1.2 million recorded for the 16 months ended December 31, 1999 and an increase of 18% over the \$9.8 million recorded for the year ended August 31, 1998. Net earnings per share amounted to \$0.61 compared to \$0.07 for the 16 months ended December 31, 1999 and \$0.66 for the year ended August 31, 1998.

NQL also enjoyed operational growth on several fronts. The third-quarter acquisition of Ackerman International, Corp., a supplier of new and used drill bits, provided the Downhole Tools Division with a new product line as well as a new location in Mt. Carmel, Illinois. Through the Ackerman acquisition, NQL also acquired 50% of ACE in addition to the 50% it held in

the original partnership with Ackerman International. At year end, Ackerman International had contributed 10% of consolidated revenue. The Downhole Tools Division also expanded its operational base with new facilities in Dubai, United Arab Emirates and in Neuquen, Argentina. Overall the division enjoyed year-over-year revenue growth, fueled by particularly strong oil and gas related activity in Canada, the U.S., Venezuela and Europe. The Company's South American operations are now all fully operational and well-positioned for growth in 2001 and beyond.

The Oilfield Services Division benefited from the first-quarter acquisition of CanFish Services Inc., a Canadian-based supplier of specialized fishing services. CanFish contributed 16% of total consolidated revenue during 2000. As well, the acquisition provides NQL with an inroad to the re-entry and workover market and with it, access to a new customer base for the Company's other products. The majority of the division's business in 2000 was in Canada; however, some work was completed in the U.S. and internationally. NQL plans to further expand CanFish into international markets via the established network of NQL service facilities in South America, Europe and the Middle East.

The Manufacturing Division also saw steady growth in the volume of in-house machining and manufacturing throughout the year. The Division also opened a new, state-of-the-art machine shop in Santa Cruz, Bolivia, and commenced a major expansion of the Nisku facility.

EMPLOYEES

We are only as good as the people that work for us. Employees are significant contributors to the Company's overall success and are encouraged and supported to develop to their fullest potential and capability.

FAMILY

Family is essential to the well being of our employees. We appreciate and show recognition for family support.

SHAREHOLDER VALUE

By adhering to our corporate values, we will generate the superior returns on capital and equity that are fundamental to our long-term success, and thereby create shareholder value. We will strive to satisfy the needs and requirements of our shareholders as they evolve.

Industry Outlook

According to the International Energy Agency's World Energy Outlook 2000, energy demand throughout the world will continue to increase over the next 20 years. Fossil fuels will continue to supply the largest portion of the energy used, approximately 90% by 2020 – a slight increase over 1997 levels. Demand in developing countries will rise more rapidly to become larger than that in industrialized countries.

The IEA report states oil will remain a major source of energy for the next 20 years, accounting for 40% of the world's energy by 2020, up slightly from its current share. Demand for oil will rise 56% to 115 MMbbls/d from the current 75 MMbbls, an increase of 40 MMbbls/d. The largest part of this increased demand, 18 MMbbls/d, will come from China, India and the rest of Asia. North American oil demand will increase 6 MMbbls/d over this period.

Demand for natural gas will increase an average 2.7% per annum, according to the IEA, largely as a result of increased use of gas for electrical power generation and to rebuild reserves depleted by the sudden surge in production. By 2020, gas will account for 26% of the world's energy, an increase from the current 22%. Again, growth rates are highest in East Asia, China, India and Europe.

Electricity generation will also increase significantly over the next 20 years, and with it the need to expand transmission and distribution networks, work in which the Company's products and services are used to perform river and road crossings, reducing the need for major construction work.

For the near term, western Canada oil prices may decline slightly in concert with OPEC's desire to maintain a price range of US\$22 to US\$28 per barrel. However, maintaining this range will lend a measure of stability to the market. Natural gas prices are expected to remain strong because, despite the increased activity, there has been little actual growth in production due to high decline rates and the significant time requirements for getting new production on stream. Increased export pipeline capacity over the past few years will also support strong prices due to increased demand in the U.S. for gas-fired power generation. Industry organizations predict 18,500 wells will be drilled in Canada in 2001 and 17,700 wells in 2002. More than 32,800 wells are expected to be drilled in the U.S. during 2001, of which approximately 54% will be natural gas.

NQL Growth Strategy

NQL's overall goal is to be one of the largest oilfield tool suppliers in the world by maximizing the number of services provided at each site and to each customer. The Company has achieved successful growth throughout its history by planning two to three years in the future, exercising patience and maintaining flexibility and agility.

NQL strives for balanced growth between Canadian, U.S. and international markets. Canada and the U.S. are experiencing tremendous growth as a result of the increased demand for natural gas. International markets tend to be less cyclical because international plays are of a scale that necessitate larger companies and longer lead times. Therefore, when commodity prices drop, there is a lag time before demand for oilfield services decreases. North

Growth Strategy

The Company has achieved successful growth throughout its history by planning two to three years in the future, exercising patience and maintaining flexibility and agility.

American markets, on the other hand, tend to be smaller and can ramp up faster when commodity prices rebound. This type of market diversity provides NQL with a means of smoothing the inherent cyclicity of commodity prices.

Acquisition Strategy

NQL looks for well-managed companies that provide services complementary to those provided by NQL. The Company does not acquire businesses that compete with its customers. Acquiring complementary products and services increases NQL's market share in the oilfield services industry as a whole. Such acquisitions also provide new services for existing customers and expose new customers to NQL's existing products and services. In any acquisition, NQL strives to retain the key management that contributed to the success of the acquired company to maintain continuity, customer relationships and intellectual capital.

Internal Growth Strategies

NQL achieves internal growth primarily through diversification. The basis of growth through diversification is in developing new applications for existing products and services. For example, in 1997 directional and horizontal drilling accounted for 92% of NQL's downhole motor market, but has since decreased to 55% because of new applications such as performance drilling and drilling with coiled tubing. Diversification also means entering entirely new markets. As well as the oil and gas industry, the utilities industry uses downhole motors to perform river and road crossings for electrical cables, fibre optics and water mains. This has proven to be a large market for NQL outside of Canada – 56% in Europe and 29% in U.S. compared with 5% in Canada.

Geographical Expansion

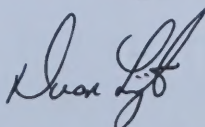
When moving into a new geographic area or product line, NQL has several options, depending on market conditions. The Company can hire a manager with experience in a specific market NQL views as viable, or it can enter a new market as a product supplier with the aid of a local distributor or form a partnership or joint venture with the distributor. NQL may, at a later date, acquire the partner via a friendly takeover. Where it is too costly to set up a facility, NQL will market its products through business associates. Following establishment in a new market with one product, NQL can introduce other, existing product lines and services to that market.

Acknowledgements

I would like to take this opportunity to thank our staff for their dedication and diligence, to our Board of Directors for their guidance and direction, and to our shareholders for their support. I would also like to welcome Derek C. Martin to the NQL Board of Directors. Derek brings to NQL more than 12 years' senior management experience in the oil and gas services industry.

I would also like to express our appreciation to Walter Stelmaschuk for his dedication and contribution to our Company. Walter was President of the Company from 1989 to 1994, and has been chairman of our Board of Directors since 1989. He also handled the Company's investor relations activities during his tenure; however, he has decided to retire from the Board and we wish him well in his future endeavours.

NQL will continue to apply what has become a very successful strategy for balanced growth and, with the outlook for continued strong activity in the oil services sector, will enjoy another year of growth in 2001.



Dean Livingstone, President & CEO

NQL Drilling Tools Inc. comprises three operational divisions:

THE DOWNHOLE TOOLS DIVISION, THE OILFIELD SERVICES DIVISION, AND THE MANUFACTURING DIVISION.

Business

The Downhole Tools Division consists of several product lines including Black Max drilling motors, Beaver whipstocks and mills, Ray-Son drilling jars and shock subs, drilling bits and a number of other products used in the downhole environment.

NQL designs, manufactures, services and markets Black Max drilling motors for rent or long-term lease, and to a lesser extent, sale. Downhole drilling motors are used in drilling applications primarily by the oil and gas industry but also by the utility crossing, mining and environmental sectors. Downhole motors hydraulically turn the drill bit from the end of the drill string as opposed to conventional drilling systems which turn the drill bit by rotating the entire drill string from the rig floor. This makes downhole motors ideally suited to horizontal drilling, directional drilling, drilling with coiled tubing, and performance or straight hole drilling, the latter two of which are fast becoming preferred drilling applications.

Beaver whipstocks and mills are designed, manufactured and supplied by NQL primarily for oil and gas re-entry applications. Whipstocks and mills are used together to exit cased wellbores to allow horizontal and directional re-entry drilling and to sidetrack wellbores to avoid downhole restrictions. The whipstock holds the mill against the casing so the mill can cut a window to allow the bit to exit and continue drilling the deviated portion of the hole.

NQL designs and manufactures Ray-Son mechanical and mechanical/hydraulic drilling jars and shock subs as well as other drilling tools such as stabilizers, primarily for lease to oilfield drilling companies. The acquisition of Stingray gives NQL a new line of hydraulic jars marketed through Black Max under the "Rig Rattler™" trade name. Shock tools are designed to cushion heavy axial loading and bit vibrations in straight hole drilling to preserve and prolong equipment life. Drilling jars are used to free equipment lodged in the wellbore.

Continual Growth for Downhole

JANUARY 1993

Acquired Black Max Downhole Tools Ltd. (Canadian operations), Black Max Downhole Tools Inc. (U.S. operations) and Canadian Downhole Drill Systems Inc. (patent holder).

Black Max Downhole Tools' U.S. operations have grown from one location in 1993 to eight locations in 2000.

JUNE 1995

Entered the South American market through a joint venture with P&T Servicios Petroleros C.A., a Venezuelan-based casing services provider.

SEPTEMBER 1995

Acquired Beaver Oil Tool Ltd., and Ray-Son Rentals Ltd., both of which were merged into Black Max.



NQL also supplies new and used drilling bits to the oil and gas and utilities industries world wide through its newly acquired subsidiary, Ackerman International, Corp.

NQL's other products include offset flex subs, adjustable offset flex subs, anti-torque swivels, utility rig swivels, rotor catchers, near bit cutters, and adjustable and fixed bent housings.

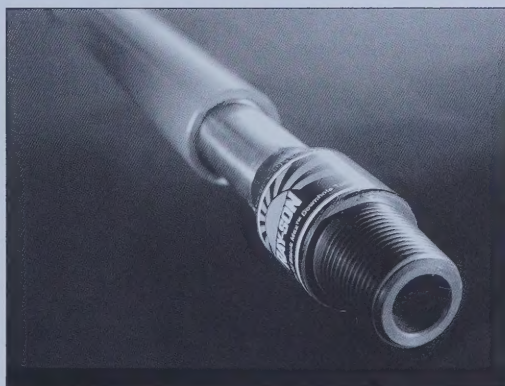
Year in Review

In Canada, strong commodity prices fueled exploration and development activity, resulting in the completion of approximately 16,500 wells, a 56% increase over 1999. As a consequence, demand for NQL's products and services rose and the Downhole Tools Division enjoyed improved performance, especially during the first quarter drilling season. Activity slowed somewhat in the second quarter due to spring break-up and unseasonably wet weather, but improved late in the third quarter and throughout the fourth quarter with revenue growth of 78% over the previous year.

Drilling activity also increased in the U.S. where approximately 27,819 wells, a 46% increase over 1999, were completed in 2000. NQL's operations enjoyed steadily improving results, partially due to

the acquisition of Ackerman International. Overall, U.S. revenues grew 98% over that of 1999.

Internationally, Venezuelan revenues grew 30% during the year due to a resurgence in drilling and workover activity. NQL expanded into Argentina in the second quarter. The Company experienced a slow start to the year in Bolivia primarily because operations were only recently established, but demand and activity picked up slightly and the business is well positioned for growth in all its South American operations. Consolidation in the oil and gas services industry in Europe provided opportunities for the Company's European operations. Activity levels remained high in both the oil and gas industry and in the utilities



Ray-Son drilling jar.

Tool Division

NOVEMBER 1996

Set up V.O.F. ACE Downhole Tools and Services as a 50% joint venture with Ackerman International, Corp. to market Black Max products and Ackerman International drill bits in Europe.

SEPTEMBER 1997

Acquired P&T Servicios Petroleros C.A., formerly a joint venture partner in Venezuela, to market the Company's three product lines as well as P&T's own casing services.

REVIEW OF OPERATIONS – DOWNHOLE TOOLS DIVISION



Canada:

Nisku, Alberta; Calgary, Alberta;
Estevan, Saskatchewan

U.S.:

Houston, Texas; Odessa, Texas;
Bakersfield, California; Mt. Carmel,
Illinois; Casper, Wyoming; Lafayette,
Louisiana; marketing and tool stocking
facilities at Oklahoma City, Oklahoma
and Traverse City, Michigan

International:

Ciudad Ojeda, Venezuela; Anaco,
Venezuela; Barinas, Venezuela; Santa
Cruz, Bolivia; Neuquen, Argentina;
Akersloot, The Netherlands; Dubai,
United Arab Emirates; facilities in
Perth, Australia and Loyang Crescent,
Singapore are operated through a
business associate and a joint
venture, respectively

Continual Growth for Downhole

OCTOBER 1998

Set up Black Max S.A. in Bolivia
to market the Company's products
in that area.

SEPTEMBER 1999

Acquired Stingray Tools Ltd., a
privately owned manufacturer and
distributor of hydraulic drilling
jars, shock tools and other down-
hole equipment, and merged it into
its Black Max operations; acquisi-
tion provided a new line of purely
hydraulic drilling jars as well as
further inroads to oil and gas
exploration and production companies.

JANUARY 2000

Opened facilities in
Dubai, U.A.E.

sector from which the Company derives 55% of its European revenue. Revenue improved further in the third and fourth quarters due to the Ackerman International acquisition. In the Middle East, NQL established a service centre in Dubai, U.A.E. that became fully operational in the first quarter and began generating revenue in the second quarter.

Growth Prospects and Strategy

As exploration for natural gas, especially deep natural gas, increases, NQL anticipates substantial growth in performance drilling activity in both Canada and the U.S. The Company is expanding its drilling bit operations with a new Ackerman International facility in Parkersburg, West Virginia to realize on opportunities presented by the growth in deep gas drilling in the northeast U.S.



Black Max drilling motor.

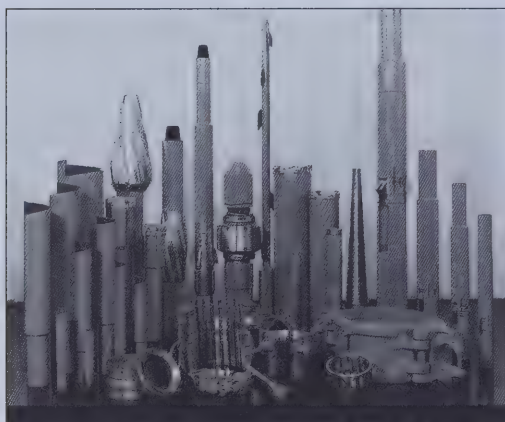
Tool Division

APRIL 2000

Opened a stocking facility in Neuquen, Argentina, which will be expanded to a full-service facility in the first quarter of 2001.

JULY 2000

Acquired Ackerman International, Corp., a U.S.-based supplier of new and used drill bits, drill pipe and collars as well as other drilling equipment; acquisition also gave NQL 100% ownership of ACE.



Downhole fishing.

Business

NQL operates its Oilfield Services Division through its wholly owned subsidiary, CanFish Services Inc., which provides specialized downhole fishing services (the process of recovering downhole tools, drillstring, tubing or other materials lodged in a wellbore) as well as fishing tool, wireline and pipe recovery and other specialty tool rentals from locations in Nisku, Alberta; Grande Prairie, Alberta; Whitecourt, Alberta; and Lloydminster, Alberta.

Year in Review

NQL's oilfield services operations are currently confined primarily to Canada with planned expansion to other markets through NQL's existing service

centres. As with the Downhole Tools Division, the Oilfield Services Division had a strong first quarter followed by a slower second quarter, as expected, due to spring break-up. The third quarter showed some improvement, despite the poor weather conditions. The Oilfield Services Division contributed significantly to consolidated revenue, a total of \$14.4 million for the year, representing 16.6% of consolidated revenue.

In the U.S., the Oilfield Services Division performed a limited number of jobs in Michigan and in West Texas in conjunction with Black Max facilities in those areas.

Internationally, the Division was active in sales markets in Aberdeen, Scotland and Singapore.

Growth Prospects and Strategy

NQL is expanding the Oilfield Services Division's presence in the Grande Prairie area with a new facility expected to be opened in the second quarter of 2001. CanFish operations are based 40% on drilling and 60% on workover and production activities. The drilling segment has a similar customer base to the Downhole Tools Division, whereas the workover and re-entry market has much different customer base and therefore provides potential for new clients across the Company. A recent marketing review indicates potential for NQL's oilfield services in Bolivia, the Middle East, Southeast Asia and eastern Canada.

Continual Growth for Oilfield Services Division

SEPTEMBER 1995

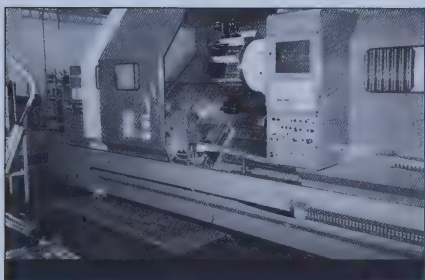
Began with acquisition of Beaver Oil Tool Ltd. which provided specialized milling services.

JANUARY 2000

Acquired CanFish Services Inc. which now handles all milling services previously supplied by NQL's Beaver Oil Tool subsidiary.

SEPTEMBER 2000

Opened a new facility in Whitecourt, Alberta.



NBJ In-house machinery.

Business

Through NBJ Manufacturing Ltd., NQL provides in-house machining and manufacturing of parts for the Company's internal use. NBJ also manufactures customized products for third-party customers primarily in the oil and gas industry. The Division has facilities in Nisku, Alberta and Santa Cruz, Bolivia, where the Company's subsidiary, NBJ Manufacturas Petroleras (Bolivia) S.A. was set up to provide machining requirements for NQL's South American operations.

Year in Review

In Canada, the Manufacturing division contributed an average of 74% of the Company's machining and manufacturing requirements for the year. NQL is currently expanding its Nisku facility by adding 30,000 square feet, more than half of which will be allocated to increased machining and manufacturing capacity. The remainder will be used for research and development, inventory and shipping, and quality assurance.

Growth Prospects and Strategy

The Company aims at maintaining 70% of manufacturing requirements in-house to control quality, cost and deliverability. The current facilities expansion, expected to be completed early in 2001, will support this goal.

Internationally, NQL began operations in Bolivia during the second quarter of 2000. Plans are to manufacture 40% to 50% of NQL's South American spare parts requirements within a two-year period to reduce import costs and lead time on delivery. As well, NQL is now in a position in Bolivia to provide manufacturing and repair services to third parties in the area.

Research and Development

NQL began ramping up its research and development capabilities three years ago. It now has an established product development team comprising experienced individuals from Alberta and the U.S., which recently commercialized the Windowmaker™ one-trip whipstock system. In normal milling operations, several trips may be necessary to set the whipstock, mill the initial window and mill the final window before resumption of drilling. Milling a window with the Windowmaker™ only requires one trip.

The expansion to NQL's manufacturing facility will also include approximately 6,000 square feet allocated to a new Research and Development facility. This will include a metallurgical lab for analyzing new and existing materials for use in improving NQL's products. The metallurgical capability will also be used in quality control to verify that materials conform with specifications. Through its Research and Development efforts, NQL is continuously developing new products and improving existing products.

Continual Growth for Manufacturing Division

DECEMBER 1996

Acquired NBJ Manufacturing Ltd., based in Edmonton, Alberta.

FEBRUARY 1998

Moved to new facilities in Nisku, Alberta.

SEPTEMBER 1999

Acquired a 70% interest in NBJ Manufacturas Petroleras (Bolivia) S.A.; commenced operations in April of 2000.

AUGUST 2000

Commenced work on the expansion of NBJ's manufacturing facilities in Nisku, Alberta.

REPORT ON CORPORATE GOVERNANCE

Statement of Corporate Governance Practices

The Board of Directors of the Company believes that sound corporate governance practices are essential to the effective, efficient and prudent operation of the Company and that these practices should be reviewed regularly to ensure that they are appropriate. A description of the Company's corporate governance practices follows. This Statement of Corporate Governance Practices has been prepared by Michael Kennedy, who is appointed the Lead Director and is responsible for developing the Company's approach to corporate governance issues and ensuring that the Company has sound corporate governance practices.

Mandate of the Board

The mandate of the Board of Directors is to supervise the management of the business and affairs of the Company and to act with a view to the best interests of the Company, pursuant to the powers granted by, and the obligations imposed under, the Business Corporations Act (Alberta), the Company's constating documents and the common law. The Board of Directors fulfills its mandate directly and through its committees at regularly scheduled meetings. Meetings of the Board are held at a minimum every quarter to review the Company's operating results for the quarter as well as once annually to review the Company's proposed budget. Additional meetings of the Board are held on an as needed basis, either in person or by teleconference. Additionally, the independent Board members meet on an ad hoc basis to review the performance of management. Frequency of meetings as well as the nature of agenda items change depending upon the state of the Company's affairs and in light of opportunities or risks that the Company faces. The directors are kept informed of the Company's operations at these meetings, as well as through reports and discussions with management, which consults with the Board freely on matters within their

particular areas of expertise. In a Company whose business strategy requires quick decision making, the Board has empowered management with the authority to act on day to day matters and within defined parameters in order to carry out the Company's business plan. All of the directors are meaningfully aware of and involved in the Company's business activities, and the Board continuously evaluates the performance of management and the performance of the Company as a whole.

Adoption of a Strategic Planning Process

Although the Company's strategic planning process is a management initiative, the Board of Directors as a whole participates annually in the process by reviewing and approving the strategic plans and budgets. On a continuing basis, the Board will continue to ensure that the plans are appropriate.

Managing Risk

Senior management periodically reports to the Board of Directors on the principal risks faced by the Company and the steps implemented by it to manage these risks. The Board has considered and does, in its deliberations, consider the principal risks of the Company's business and will continue to work with management to assess and review the on-going management of these risks.

Appointing, Training and Monitoring Senior Management

The Compensation Committee assists the Board of Directors in monitoring the performance of senior management. The Company has employment contracts with key members of the senior management team.

With respect to management personnel, the Company actively seeks to recruit highly motivated individuals with broad-based skills and a demonstrated capacity to adapt to a dynamic business environment. Senior management are encouraged to participate in appropriate professional and personal development

activities (e.g. courses and programs). In addition, the Nominating and Succession Committee reviews and reports to the Board on the organizational structure of the Company at least annually and is actively involved in the succession planning process.

Response to Shareholders

The Board believes that its communications with shareholders, and the avenues available for shareholders and others interested in the Company to have their inquiries about the Company answered, are responsive and effective. Inquiries from shareholders are treated on a priority basis with prompt responses from the appropriate member of senior management. In addition, a significant portion of the Company's communications with its shareholders is reviewed by the Board prior to distribution to the shareholders. Annual financial statements are submitted to the Board for approval, as are Management's Discussion and Analysis of Financial Results, quarterly results and reports of management thereon, the Company's Management Information Circular, and press releases on major developments.

Integrity of Internal Controls and Management Information Systems

The Board, through the Audit Committee, assesses the effectiveness of the internal controls and management information systems at meetings held with the external auditors and members of senior management.

Mandate of the Board and the Chief Executive Officer

Formal position descriptions have not been developed for Board members since the Board assumes overall responsibility for overseeing the affairs of the Company. The description of the position of the Chief Executive Officer follows from his role and responsibilities in connection with corporate objectives prepared by senior management and reviewed and adopted by the Board. The Chief

Executive Officer is responsible for ensuring that these objectives are met. His performance in this regard is assessed by the Compensation Committee.

Board Composition

The Board of Directors of the Company is composed of a majority of "unrelated directors". An "unrelated director" is a director who is free from any interest and any business or other relationship which could, or could reasonably be perceived to, interfere materially with that director's ability to act with a view to the best interests of the Company.

In considering their qualifications as unrelated directors, the Board took into account relationships certain of the unrelated directors have or have had with the Company. Mr. Kennedy is a partner in a law firm which provides legal advice to the Company and Mr. Richards is a former partner of a law firm which provides legal advice to the Company. The Board of Directors does not believe that these relationships should reasonably be perceived to materially interfere with their ability to act in the best interests of the Company.

The Board of Directors was composed of seven members as of December 31, 2000. The Board of Directors believes that five directors – Messrs. Kennedy, Richards, Kuchar, Sawin and Martin – were "unrelated directors" and that two directors – Messrs. Livingstone and Stelmaschuk – were "related directors".

The size and composition of the Board have been driven by a desire to ensure that the Company has an appropriate complement of skills, knowledge, and experience required for the effective management of the Company, and for ensuring long-term growth and value for shareholders. Messrs. Livingstone and Stelmaschuk are each "related" directors, as they are members of management. The Board believes that the knowledge that each of these senior management directors brings to the Board, and the insight that each offers into his particular area of responsibility

within the Company, contribute to the effectiveness of the Board and to the effective corporate governance of the Company. The “unrelated” directors provide independence and bring to the Board a variety of substantial experience and skill sets that complement those of the “related” directors.

Size of Board

The Board has considered its size with a view to the impact of size upon its effectiveness and has concluded that the number of directors as presently constituted is appropriate for a company of its size and complexity, although the addition of one additional director is currently contemplated. The current size of the Board is reflective of the Company's business model, which requires quick and effective decision making. The Board, as presently constituted, brings together a mix of skills, backgrounds, ages and attitudes that the Board considers appropriate to the stewardship of the Company. The periodic review of this issue is part of the mandate of the Nominating and Succession Committee.

Board Training and Performance

The Company, in seeking out new Board members, looks for individuals who have previous experience in the operation of public entities. Each new director is given the opportunity to meet with senior management and to review the Company's budget and strategic plan, and historical public information.

Presentations are made periodically by senior management to the Board of Directors in the main areas of the Company's business and operations. The unrelated directors of the Company meet periodically to assess the performance of the Board and the Company as a whole.

Independence from Management

Currently, Mr. Stelmaschuk is Chairman of the Board and Mr. Livingstone is Chief Executive Officer of the Company. In the context of the Company, the Board at this point believes that the role of the Chair and the Chief Executive Officer in setting the Board agenda and ensuring that adequate and proper information is made available to the Board, a critical element for effective corporate governance, is best filled by persons who have intimate knowledge of the Company, its operations and the industry within which this Company operates. The Board is of the view that Mr. Livingstone and Mr. Stelmaschuk, in conjunction with other senior management, are the most qualified individuals to fulfill this function.

The Board regularly reviews the quantity and quality of information provided to it and, from time to time, requests changes. The skill sets and experience of the unrelated, independent directors on the Board, combined with the accessibility and experience of the senior management directors, have enabled open and meaningful discussions and enhanced the Company's management. The Board is very much a working Board - with most non-management members serving on committees that are active and involved. The Board has open access to information relating to the operations of the Company. In addition, the Board members may engage independent advisors at the Company's expense, with the approval of the Nominating and Succession Committee, to assist them in their work.

Committees of the Board

Audit Committee

The Audit Committee is responsible for reviewing the Company's financial reporting procedures, internal controls and the performance of the Company's external auditors. The committee is also responsible for reviewing the quarterly and annual financial statements of the Company prior to the approval by the full Board of Directors. The Audit Committee has direct communication channels with the external auditors and has, on occasion, met with them in the absence of management.

The members of the Audit Committee of the Company met four times during fiscal 2000, during which time its members were Michael Kennedy, William Richards and Allan Sawin.

Compensation Committee

The Compensation Committee is responsible for reviewing and making recommendations to the Board of Directors on such matters as compensation and termination of the Company's Chief Executive Officer, and for the administration of the Company's Incentive Stock Option Plan.

The current Compensation Committee of the Company met twice during fiscal 2000. The members of the Compensation Committee are Michael Kennedy, William Richards and Wally Kuchar.

Nominating and Succession Committee

The Nominating and Succession Committee is responsible for assessing the effectiveness of the Board, its size and composition, and for identifying the characteristics required in new Board members and identifying particular individuals who meet those characteristics. The members of the Nominating and Succession Committee are Wally Kuchar and Allan Sawin.

Decisions Requiring Board Approval

At present, in addition to those matters which must, by law, be approved by the Board, management seeks Board (or appropriate committee) approval for any transaction which is out of the ordinary course of business or could be considered to be "material" to the business of the Company. Any Management initiatives not covered in the annual business plan require Board approval.

Expectations of Management

The Board's relationship with management is an open and productive one. Management uses its Board effectively and frequently seeks the advice of its outside Board members with respect to various aspects of its business. The resources available to the Company by virtue of skill sets represented on the Board have enabled management to obtain relevant feedback on a broad variety of matters and, as a result, input and direction prior to formulating its recommendations.

The Board expects the Company's management to:

- (i) review, on an ongoing basis, the Company's strategies and their implementation in all key areas of the Company's activities, in light of evolving and changing market conditions and government regulations;
- (ii) conduct a comprehensive annual budgeting process and monitor the Company's financial performance against the annual budget approved by the Board;
- (iii) take the initiative in identifying opportunities and risks for the benefit of the Company; and,
- (iv) report in a comprehensive, accurate and timely fashion on the business and affairs of the Company generally and on any specific matters that it considers of significant material consequence to the Company and its Shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The management's discussion and analysis focuses on key statistics from the Consolidated Financial Statements, and pertains to known risks and uncertainties relating to the oil and gas services sector. This discussion should not be considered all-inclusive as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the Company's Consolidated Financial Statements and related notes and material contained in other parts of this annual report.

In 1999, the Company changed the ending date of its financial year from August 31 to December 31. Therefore, in the following discussion, the 16 months ended December 31, 1999 are referred to as 1999, and the 12 months ended December 31, 2000 are referred to as 2000.

The results of operations for 2000 reflect the continued recovery in commodity prices that began in the second quarter of 1999. Buoyant commodity prices resulted in increased demand for oilfield services, from which NQL benefited substantially. In addition to improved financial results, the Company completed the acquisitions of CanFish Services Inc. ("CanFish") and Ackerman International, Corp. ("Ackerman International"), and expanded existing operations into new markets including Dubai, U.A.E.; Santa Cruz, Bolivia; Neuquen, Argentina; and Whitecourt, Alberta.

Results of Operations

(\$000s, except per share amounts)	2000	1999	Change
Revenues	\$ 87,019	\$ 51,551	69%
Income before goodwill amortization	\$ 12,692	\$ 1,647	671%
Income after goodwill amortization	\$ 11,588	\$ 1,185	878%
Earnings per Share			
before goodwill amortization	\$ 0.67	\$ 0.10	570%
after goodwill amortization	\$ 0.61	\$ 0.07	771%
Cash Flow from Operations	\$ 22,590	\$ 10,303	119%
Cash Flow per Share	\$ 1.19	\$ 0.64	86%

Revenues

Consolidated

For the year ended December 31, 2000 NQL recorded revenues of \$87.0 million, an increase of 69% over the \$51.6 million recorded for the 16 months ended December 31, 1999 and an increase of 42% over the \$61.3 million recorded for the year ended August 31, 1998.

Geographic Segments

Revenues in Canada are generated by all three of the Company's operating divisions: Downhole Tools, Oilfield Services, and Manufacturing. Canadian revenues increased 78% to \$34.2 from \$19.2 million in 1999, largely as a result of increased oil and gas industry drilling and remedial activity and the consequent increase in demand for NQL's products and services. In addition, Canadian revenues were positively impacted by the first-quarter acquisition of CanFish, which operates in the Oilfield Services Division and contributed \$13.9 million of Canadian revenue.

Revenues in the U.S. were generated almost entirely by the Downhole Tools Division. U.S. revenues increased 98% to \$33.7 from \$17.0 million in 1999, again due primarily to the general increase in industry activity. The third-quarter acquisition of Ackerman International, operating in the Downhole Tools Division, contributed \$8.6 million of revenue.

International revenues are generated by all three of the Company's operating divisions and increased 24% to \$19.1 from \$15.4 million in 1999. The improvement is due to a number of factors including the healthy operating environments in both the oil and gas and the utilities industries; the acquisition of Ackerman International and resultant 100% ownership of ACE in The Netherlands; expansion into Dubai, U.A.E. and Neuquen, Argentina; and start-up of the manufacturing facility in Santa Cruz, Bolivia.

Revenues by Geographical Segment	2000	1999	Change
Consolidated	\$ 87.0	\$ 51.6	69%
Canada	\$ 34.2	\$ 19.2	78%
U.S.	\$ 33.7	\$ 17.0	98%
International	\$ 19.1	\$ 15.4	24%

Operating Divisions

The Downhole Tools Division comprises the operations of Black Max Downhole Tools Ltd. (Canadian operations) and Black Max Downhole Tools Inc. (U.S. operations) as well as several other acquired businesses currently operating under the Black Max banner. The Division designs, manufactures, services and markets downhole drilling motors, whipstocks, mills, drilling jars, shock subs, drilling bits and a number of other downhole tools such as flex subs, bent housings and swivels. Revenue for the Division in 2000 amounted to \$70 million, an increase of 39% over the \$50.3 million recorded for the 16 months ended December 31, 1999. This increase is due to improved industry conditions, new facilities in Dubai and Argentina, and the Ackerman International acquisition.

The Oilfield Services Division provides specialized downhole fishing services through NQL's wholly owned subsidiary, CanFish Services Inc., acquired in the first quarter of 2000. Revenues for the Division amounted to \$14.4 million in 2000 and were augmented through the opening of a new facility in Whitecourt, Alberta in the fourth quarter of 2000.

The Manufacturing Division derives its revenues from manufacturing and machining facilities in Nisku, Alberta and a newly opened facility in Santa Cruz, Bolivia. As this Division's products are sold primarily to the Downhole Tools Division in order to maintain margins, more than 84% of the Division's revenues are eliminated upon consolidation. Revenues for the Division to third parties amounted to \$2.6 million in 2000, an increase of 100% over the \$1.3 million recorded for the 16 months ended December 31, 1999.

Revenues by Operating Division	2000	1999	Change
Consolidated	\$ 87.0	\$ 51.6	69%
Downhole Tools	\$ 70.0	\$ 50.3	39%
Oilfield Services	\$ 14.4	\$ -	-
Manufacturing	\$ 2.6	\$ 1.3	100%

Expenses

Direct Expenses for 2000 were \$39.8 million (45.7% of sales) compared to \$22.1 million (42.8% of sales) for 1999. The increase can be attributed primarily to the higher direct costs in both CanFish and Ackerman International, which were 55.2% and 53.1%, respectively. This resulted in a gross margin for the year of 54.3% compared to 57.2% in 1999.

General and administrative expenses decreased to \$15.4 million in 2000, representing 17.7% of revenue compared to \$16.4 or 31.8% in 1999. This resulted in EBITDA for 2000 of \$31.8 million (36.5% of sales) compared to \$13.1 million (25.4% of sales) in 1999.

Amortization expense increased to \$8.9 million in 2000 from \$8.1 million in the prior year. The increase relates primarily to the capital expansion program during the year, as well as the amortization on the assets acquired in conjunction with the acquisitions of CanFish and Ackerman International. Goodwill amortization also increased during the year, from \$0.5 million to \$1.1 million, due to the goodwill associated with the CanFish and Ackerman International acquisitions.

Interest expense increased to \$2.9 million from \$2.5 million in 1999. This increase is a result of the additional bank indebtedness incurred during the year to fund the 2000 capital expansion program as well as the interest on long-term debt incurred to finance the CanFish acquisition.

Income tax expense increased from \$0.90 million to \$7.3 million during the year due to higher pre-tax earnings. The effective income tax rate for the company for the year was 37.0% compared to 35.6% in 1999 and 42.5% in 1998.

Effective January 1, 2000, the Company acquired all the outstanding shares of CanFish Services Inc., a privately owned specialized oilfield service company based in Nisku, Alberta.

The purchase price was \$16.5 million, comprising a combination of cash and the issuance of Class "A" common shares. In addition, the Company assumed approximately \$2.9 million in debt.

CanFish provides specialized downhole "fishing" services which involve the recovery of downhole tools, drillstring, tubing or other materials stuck in a wellbore. CanFish also specializes in fishing tool, wireline, pipe recovery services and other specialty tool rentals to Canadian and international oil and gas exploration and production companies. CanFish's services will be expanded internationally through NQL's Black Max and global service locations. In conjunction with the acquisition, certain key employees agreed to remain with CanFish to manage its business. CanFish will continue to operate as a stand-alone entity.

Effective July 1, 2000, the Company acquired all the outstanding shares of Ackerman International, Corp., a privately owned oilfield supply company based in Mt. Carmel, Illinois.

The purchase price was \$6.5 million in U.S. currency, comprising cash, the issuance of a promissory note (US\$2.0 million) and the issuance of Class "A" common shares. In addition, the Company assumed approximately \$1.6 million in short-term indebtedness.

Ackerman International has been in the business of supplying new and used drilling bits for more than 30 years and has developed a worldwide client base. In addition to the supply of bits, Ackerman International supplies hole openers, drill pipe, drill collars and other equipment for use in drilling operations. Ackerman is a 50% partner with NQL in the ACE Downhole Tools & Services V.O.F. Holland-based operations. The acquisition, therefore, gives NQL 100% ownership of ACE. In conjunction with the acquisition, Wayne Ackerman, president, manager and founder of Ackerman International agreed to remain with Ackerman to manage the company's business. Ackerman International will continue to operate as a stand-alone entity.

In the Downhole Tools Division, the Company expanded its international presence during the past year through new facilities in the Middle East and Argentina. In the first quarter of the year, a new service facility was established in Dubai, United Arab Emirates to serve the buoyant oil and gas industry in the area. Also, during the second quarter of 2000, the Company opened a stocking facility in Neuquen, Argentina, which will be expanded to a full-service facility in 2001.

In the Manufacturing Division, the Company commenced operations in Santa Cruz, Bolivia during the second quarter of 2000. This manufacturing and machining facility has been set up to service the spare-part needs of the Company's South American operations. The Company expects that within the next two years this facility will manufacture 40% to 50% of the Company's spare-part requirements for South America. This will help reduce import costs and the lead time on delivery.

In the Oilfield Services Division, the Company expanded its operations by opening a new facility in Whitecourt, Alberta.

Net Earnings

Net earnings for the year ended December 31, 2000 totalled \$11.6 million, an increase of 867% over the \$1.2 million recorded for the 16 months ended December 31, 1999 and an increase of 18% over the \$9.8 million recorded for the year ended August 31, 1998. Net earnings per share amounted to \$0.61 compared to \$0.07 for the 16 months ended December 31, 1999 and \$0.66 for the year ended August 31, 1998.

Capital Expenditures

Additions to capital assets for 2000 were \$17.4 million compared to \$16.9 million for 1999. These additions resulted from an increase in the number of downhole tools and shop equipment required to stock new facilities added during the year. Also adding to capital expenditures in 2000 was the expansion to the Company's NBJ machining and manufacturing facility in Nisku, Alberta, which commenced during the year.

Long-term Debt

At December 31, 2000, the Company had long-term debt of \$15.6 million. This debt comprises a capital loan of \$12.1 million resulting from the CanFish acquisition, a promissory note of \$3.0 million resulting from the Ackerman International acquisition, and \$0.50 million in other miscellaneous loans and agreements. The capital loan, which requires quarterly principal payments of \$725,000, bears interest at prime plus 0.75%. The promissory note is payable in quarterly principal payments plus interest at 8%, with the first payment in the amount of US\$750,000 due March 31, 2001 and subsequent quarterly payments thereafter in the amount of US\$250,000.

Quarterly Information

(\$000s, except per share figures)	4th Q 2000	3rd Q 2000	2nd Q 2000	1st Q 2000	Stub Period 1999	4th Q 1999	3rd Q 1999	2nd Q 1999	1st Q 1999
Revenue	\$27,716	\$25,002	\$14,998	\$19,303	\$16,432	\$9,485	\$7,345	\$8,416	\$9,873
Net income	\$ 3,944	\$ 3,958	\$ 1,231	\$ 2,456	\$ 1,294	\$ (363)	\$ (504)	\$ 216	\$ 542
– Per share									
– Basic	\$ 0.21	\$ 0.21	\$ 0.07	\$ 0.13	\$ 0.08	\$ (0.02)	\$ (0.03)	\$ 0.01	\$ 0.04
– Per share									
– Fully diluted	\$ 0.20	\$ 0.20	\$ 0.07	\$ 0.13	\$ 0.08	\$ (0.02)	\$ (0.03)	\$ 0.01	\$ 0.04

Liquidity and Capital Resources

At fiscal year-end 2000, the Company had bank indebtedness relating to its operating facility of \$23.9 million compared to \$10.7 million at December 31, 1999. The credit facilities available to the Company and its subsidiaries at December 31, 2000 included a Canadian bank operating facility of up to \$22.0 million bearing interest at the Canadian bank's prime interest rate plus 0.5% secured by accounts receivable and inventory. The Company also had an operating line available at a US bank in the amount of US\$3.0 million and an operating line at a Dutch bank in the amount of 500,000 Dutch guilders. (At December 31, 2000, one Canadian dollar was equal to 1.56 Dutch guilders).

Recent Developments

Subsequent to the year-end, the Company entered into a business combination agreement with Northstar Drilling Systems Inc. ("Northstar"), which will result in the strategic merger of Northstar's proprietary Polaris electromagnetic ("EM") technology business with NQL. The transaction, to be completed by way of plan of arrangement, will result in a share exchange with Northstar shareholders receiving 0.2 of a NQL share for each Northstar share and Northstar option holders receiving 0.2 of a NQL warrant for each Northstar option held.

Northstar's Polaris EM system is an advanced wireless guidance technology used in oil and gas drilling, including underbalanced drilling, and trenchless construction in the utility market. Only a limited number of companies currently have access to EM technology. The majority of these companies are using EM technology to gain a competitive advantage in providing horizontal and directional drilling services. NQL plans to make the Polaris EM technology available on a rental basis to all of its customers – a natural extension of NQL's core business of renting mud motors.

This transaction has the unanimous support of the board of directors of NQL and Northstar. As well, certain shareholders, directors and officers of Northstar, representing 64% of the outstanding common shares of Northstar have signed irrevocable lock-up agreements to support the transaction. The transaction is expected to close by the end of May 2001, and is subject to usual conditions including due diligence and regulatory approval.

In order to abide by its strategy of not competing with its customers, NQL intends to sell Northstar's conventional horizontal and directional oil and gas drilling business. As a result, NQL recently entered into an agreement in principle for the sale of Northstar's Directional Drilling Division to Nevis Drilling Services Ltd. ("Nevis") for the sum of \$7.5 million. Under the terms of the agreement, Nevis will acquire all of Northstar's directional drilling equipment and the shares of Northstar's wholly owned subsidiary, Di-Drill Inc. This transaction is subject to the completion of a definitive sale agreement and the completion of the Northstar transaction by NQL. It is expected that the transaction will close by the end of May 2001.

Environmental Matters

The Company operates with a sense of the importance of protecting the environment and is not aware of circumstances that would create any significant financial responsibility for environmental matters.

Management and Financial Controls

NQL maintains management and accounting policies, procedures and controls that are sufficient, in the opinion of management, to result in reliable financial reports and provide adequate controls over Company assets.

Business Risks and Future Outlook

The demand for the Company's products and services are largely dependent upon the level of expenditures by oil and gas companies on exploration and development activities. Exploration and development activities are affected by a number of factors, which include fluctuations in commodity prices, changes in equity markets, taxation and government regulations, and general economic conditions. The Company attempts to mitigate some of these risks through additional applications for its tools in industries such as utilities, environmental and trenchless construction. Also, as NQL continues to expand its operations internationally, it must be aware of any inherent business risks associated with doing so. The Company has attempted to mitigate these risks by establishing alliances with partners who are familiar with the economic climate and have experience in the foreign jurisdictions being explored. As well, a comprehensive insurance program is maintained to protect against significant losses, while maintaining levels of risk within the Company which management believes to be acceptable. NQL believes its liability, property and business interruption insurance is adequate and consistent with common industry practice. The potential impact of any of the above factors on the operations of the Company is difficult to determine with any degree of certainty.

A claim for \$25 million and two claims for \$15 million each have been made against the Company and two of its subsidiaries for alleged patent infringement and other patent related matters. It is not possible at this time to determine if any amount will become payable as a result of these claims. Management is of the view that such claims are wholly without merit.

Increased demand for oil and natural gas are expected to maintain drilling activity over the next few years and, as a result, management expects business prospects will be encouraging. Significant time and capital have been invested over the past few years to expand the Company's international presence and many areas have yet to achieve their full potential. In many international locations, it often takes several years to reach intended results. With its various service centres throughout North America and in selected international markets, the Company is well positioned to capitalize on the expected increase in activity.

The Company also believes that its recent acquisitions, CanFish and Ackerman International, will be beneficial for long-term growth. Significant synergies exist to expand both CanFish's and Ackerman International's activities internationally through NQL's already established network of service centres. As well, the international experience of the management should help facilitate this expansion. These synergies are expected to have a meaningful impact in 2001 and beyond.

As the Company moves along throughout the next fiscal year, it will continue to be driven by its long-term focus. The Company will continue to pursue expansion opportunities that have the potential to provide solid returns for its shareholders.

MANAGEMENT'S REPORT

Management's Responsibility for the Financial Statements

The accompanying financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using appropriate accounting policies, methods and estimates as selected by management giving consideration to the Company's circumstances. The financial and operating information included in this annual report is consistent, in all material respects, with that contained in the consolidated financial statements.

The Company maintains appropriate systems of accounting and internal controls. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

Collins Barrow, an independent firm of Chartered Accountants has been engaged, as approved by a vote of the shareholders at the Company's most recent annual general meeting, to examine the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provide an independent professional opinion.

The Audit Committee has reviewed these financial statements with management and has reported to the Board of Directors. The Board has approved the consolidated financial statements on the recommendation of the Audit Committee.



Dean Livingstone
President & CEO



Darren Stevenson
Vice President Finance and Chief Financial Officer

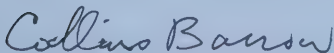
AUDITORS' REPORT

To the Shareholders of NQL Drilling Tools Inc.

We have audited the consolidated balance sheets of NQL Drilling Tools Inc. as at December 31, 2000 and December 31, 1999 and the consolidated statements of operations, retained earnings and cash flows for the year ended December 31, 2000 and the sixteen months ended December 31, 1999 and the year ended August 31, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and December 31, 1999 and the results of its operations and the changes in its financial position for the year ended December 31, 2000 and the sixteen months ended December 31, 1999 and the year ended August 31, 1998 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Edmonton, Alberta
March 4, 2001

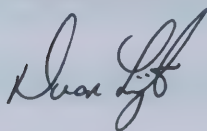
CONSOLIDATED BALANCE SHEETS

December 31, 2000 and December 31, 1999

(Thousands of Canadian Dollars)	2000	1999
Assets		
Current assets		
Cash	\$ 1,251	\$ 720
Accounts receivable	32,531	20,697
Income taxes receivable	—	1,418
Inventory	45,171	29,417
Prepaid expenses	698	1,485
	79,651	53,737
Capital assets (Note 4)	75,594	54,897
Deferred charges	1,713	605
Goodwill	15,436	2,033
	\$ 172,394	\$ 111,272
Liabilities		
Current liabilities		
Bank indebtedness (Note 5)	\$ 23,863	\$ 10,731
Accounts payable and accrued liabilities	15,463	9,253
Income taxes payable	2,996	—
Current portion of long-term liabilities	5,289	—
	47,611	19,984
Long-term liabilities (Note 6)	10,292	—
Employment benefits payable (Note 7)	449	530
Future income taxes	5,042	4,044
	63,394	24,558
Shareholders' Equity		
Capital stock (Note 8)	75,572	64,709
Retained earnings	34,800	23,212
Cumulative translation adjustments (Note 9)	(1,372)	(1,207)
	109,000	86,714
	\$ 172,394	\$ 111,272

Contingency (Note 10)

Approved by Directors



Dean Livingstone
Director



Walter Stelmaschuk
Director

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Year Ended December 31, 2000 and the Sixteen Months Ended December 31, 1999
and the Year Ended August 31, 1998

(Thousands of Canadian Dollars)	2000	1999	1998
Revenue	\$ 87,019	\$ 51,551	\$ 61,289
Direct expenses	39,802	22,080	27,611
Income from operations	47,217	29,471	33,678
Expenses			
General and administrative	15,360	16,398	10,946
Amortization	8,900	8,061	4,800
	24,260	24,459	15,746
Income before interest expense	22,957	5,012	17,932
Interest expense (Note 11)	2,860	2,454	825
Income before income taxes	20,097	2,558	17,107
Income taxes – current (Note 12)	6,407	316	5,874
– future (Note 12)	998	595	1,401
	7,405	911	7,275
Income before goodwill amortization	12,692	1,647	9,832
Goodwill amortization	1,104	462	338
Income before discontinued operations	11,588	1,185	9,494
Discontinued operations (Note 14)	–	–	313
Net income	\$ 11,588	\$ 1,185	\$ 9,807

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the Year Ended December 31, 2000 and the Sixteen Months Ended December 31, 1999
and the Year Ended August 31, 1998

(Thousands of Canadian Dollars)	2000	1999	1998
Retained earnings, beginning of period	\$ 23,212	\$ 22,027	\$ 12,220
Net income for the period	11,588	1,185	9,807
Retained earnings, end of period	\$ 34,800	\$ 23,212	\$ 22,027

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2000 and the Sixteen Months Ended December 31, 1999
and the Year Ended August 31, 1998

(Thousands of Canadian Dollars)	2000	1999	1998
Operating activities			
Income from continuing operations	\$ 11,588	\$ 1,185	\$ 9,494
Add items not requiring cash:			
Amortization	8,900	8,061	4,800
Goodwill amortization	1,104	462	338
Future income taxes	998	595	1,401
Cash flow from continuing operations	22,590	10,303	16,033
Net change in operating working capital items from continuing operations	(10,460)	(4,818)	(18,484)
Cash provided by (used in) operating activities	12,130	5,485	(2,451)
Financing activities			
Bank indebtedness	11,494	(388)	11,119
Issuance of capital stock	10,863	20,488	20,731
Commitment to issue capital stock	—	—	(16,129)
Long-term liabilities	11,960	(7,174)	6,830
Employment benefits payable	(81)	(35)	565
Cash provided by financing activities	34,236	12,891	23,116
Investing activities			
Business acquisitions	(26,973)	(617)	(11,729)
Deferred charges	(1,415)	(585)	(195)
Purchase of capital assets	(17,447)	(16,910)	(18,282)
Cash used in investing activities	(45,835)	(18,112)	(30,206)
Discontinued operations			
Cash provided by discontinued operations – net	—	—	2,319
Increase (decrease) in cash	531	264	(7,222)
Cash, beginning of year	720	456	7,678
Cash, end of year	\$ 1,251	\$ 720	\$ 456

Supplementary cash flow information:

Interest paid	\$ 2,676	\$ 2,475	\$ 770
Income taxes paid	\$ 1,993	\$ 4,638	\$ 5,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2000 and December 31, 1999) (Thousands of Canadian Dollars)

1. Operations

NQL Drilling Tools Inc., through its subsidiaries and affiliates, provides downhole tools services and technology used primarily in drilling applications in the oil and gas, environmental and utility industries on a worldwide basis.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and all its subsidiaries.

Foreign Exchange Translation

Foreign currency assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Foreign currency revenue and expenses are translated at the average rate of exchange for the period. Unrealized gains or losses on translation are shown as a separate component in shareholders' equity. Realized gains or losses resulting from foreign currency transactions have been included in the determination of income or loss for the period.

Inventory

Inventory is valued at the lower of cost, computed on a first-in, first-out basis, and net realizable value.

Capital Assets

Capital assets are recorded at historical cost and are amortized over their estimated useful lives, beginning when they are put into use, at the following rates and methods:

Buildings	- 4% straight-line
Automotive equipment	- 30% declining balance
Shop equipment	- 10 to 20% declining balance
Office equipment	- 20% declining balance
Leasehold improvements	- over the term of the lease
Downhole tools	- 10% straight-line and 20% declining balance

Deferred Charges

Deferred charges include development costs and technology of downhole tools, set up costs of new service locations, and costs associated with securing new financing. Deferred charges are amortized over three to ten years on a straight-line basis.

Goodwill

Goodwill resulted from the acquisition of companies for amounts in excess of fair market value of the Companies' net assets and is amortized on a straight-line basis over ten years and twenty years.

Revenue Recognition

Rental revenues of the downhole tool division are recognized in the period during which rental hours occur. Sales revenues of the downhole tool division are recognized when the product or service is supplied to the customer.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes its estimates to be appropriate; however, actual results could differ from the amounts estimated.

Future Income Taxes

The company uses the asset/liability method of accounting for future income taxes whereby future income tax liabilities are determined by applying the tax rate at the end of the fiscal year to temporary differences between the accounting and tax bases of the assets and liabilities of the Company.

Business Acquisitions

The January 1, 2000 acquisition of all the shares and related assets of CanFish Services Inc. has been accounted for by the purchase method of accounting and includes the results of operations in these financial statements from the date of acquisition. As a result of the acquisition, the Company acquired net assets of \$7,418 for \$11,780 cash and the issuance of 766,348 shares from treasury for an aggregate amount of \$4,950.

The July 1, 2000 acquisition of all the shares and related assets of Ackerman International Corp. has been accounted for by the purchase method of accounting and, includes the results of operations in these financial statements from the date of acquisition. As a result of the acquisition, the Company acquired net assets of \$5,048 for cash of \$1,459, the issuance of a promissory note in the amount of \$2,953, and the issuance of 711,520 shares from treasury for an aggregate amount of \$5,754.

	2000			1999
	Cost	Accumulated Amortization	Net	Net
Downhole tools	\$ 63,172	\$ 16,674	\$ 46,498	\$ 32,344
Shop equipment	16,900	4,461	12,439	10,922
Buildings	10,160	1,019	9,141	7,147
Leasehold improvements	567	280	287	529
Office equipment	3,097	1,350	1,747	981
Automotive equipment	3,781	1,901	1,880	988
Land	3,602	—	3,602	1,986
	\$ 101,279	\$ 25,685	\$ 75,594	\$ 54,897

Bank Indebtedness

Bank indebtedness consists of a revolving operating loan secured by accounts receivable, inventory and general security agreements. The interest rate on the loan at December 31, 2000 is bank prime lending rate plus 0.5% and December 31, 1999 is bank prime lending rate.

Long-Term Liabilities

	2000	1999
Capital loan, payable in quarterly principal payments of \$725, bearing interest at prime plus 0.75%, secured by a general security agreement providing first charge on all assets of the company and its subsidiaries	\$ 12,099	\$ —
Promissory note, payable in quarterly principal payments plus interest at 8%, with the first payment in the amount of \$750 US due March 31, 2001 and subsequent quarterly payments thereafter in the amount of \$250 US	2,998	—
Loans and agreements payable, interest rates varying from 4% to 16%	484	—
	15,581	—
Less current portion	5,289	—
	\$ 10,292	\$ —

7. Employment Benefits Payable

Employment benefits are termination benefits payable to Venezuelan employees as required under the Venezuelan Petroleum Industry Collective Contract. Benefits are payable upon termination of employment and in other specific circumstances as defined in the contract.

8. Capital Stock

Authorized:

- Unlimited Class A voting common shares without nominal or par value
- Unlimited Class B non-voting common shares without nominal or par value

	2000		1999	
	Number	Amount	Number	Amount
Issued:				
Class A common shares				
Beginning of period	18,115,199	\$ 64,709	15,413,114	\$ 44,221
Options and warrants exercised	63,000	174	144,613	284
Public offering	-	-	2,500,000	19,804
Issued pursuant to acquisition	1,477,868	10,689	57,472	400
	19,656,067	\$ 75,572	18,115,199	\$ 64,709

The Company has granted share purchase options to directors and employees as follows:

	2000	1999
Outstanding, beginning of period	770,520	679,633
Granted	151,455	244,500
Exercised during the period	(63,000)	(144,613)
Cancelled during the period	(3,000)	(9,000)
Outstanding, end of period	858,015	770,520

Options exercisable at December 31, 2000:

	Range of Exercise Price	Number of Exercisable Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
	\$0.60 to \$4.90	388,020	\$ 2.66	4.8 years
	\$6.00 to \$9.00	377,995	\$ 7.60	8.5 years
	\$10.75 to \$12.25	92,000	\$ 11.83	6.9 years

9. Cumulative Translation Adjustments

	2000	1999
Balance, beginning of period	\$ (1,207)	\$ 1,484
Net exchange loss for the period	(165)	(2,691)
Balance, end of period	\$ (1,372)	\$ (1,207)

10. Contingency

A claim for \$25 million and two claims for \$15 million each have been made against the Company and two of its subsidiaries for alleged patent infringement and other patent related matters. It is not possible at this time to determine if any amount will become payable as a result of these claims. Management is of the view that such claims are wholly without merit.

11. Interest expense

	2000	1999	1998
Interest on long-term debt	\$ 994	\$ 411	\$ 235
Interest – other	1,866	2,043	590
	\$ 2,860	\$ 2,454	\$ 825

12. Income Taxes

The provision for income taxes varies from the amount that would be computed by applying the combined Canadian federal and provincial income tax rate of approximately 44.6%. Income tax expense has been affected by the following items:

	2000	1999	1998
Provision for income taxes based on statutory tax rates	\$ 8,963	\$ 1,140	\$ 7,630
Large corporations tax	–	11	25
Deductible share issue costs	(258)	(239)	(213)
Manufacturing and processing deduction	(398)	(289)	(95)
Non deductible items	8	119	85
Foreign tax rate differential	(1,232)	(202)	(1,105)
U.S. State and Franchise taxes	212	309	56
Other	824	62	992
Utilization of non-capital losses carried forward	(35)	–	(100)
Change in future income taxes resulting from tax rate reduction	(679)	–	–
	\$ 7,405	\$ 911	\$ 7,275
Current income taxes	\$ 6,407	\$ 316	\$ 5,874
Future income taxes	998	595	1,401
	\$ 7,405	\$ 911	\$ 7,275

13. Financial Instruments

Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of accounts receivable.

Concentration of credit risk with respect to accounts receivable is limited due to the Company's credit evaluation process, the large number of customers comprising the Company's customer base and their dispersion among many different geographical locations internationally.

In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers.

Fair Value Disclosures

Fair value estimates are made as of a specific point in time using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

Financial instruments of the Company consist mainly of cash, accounts receivable, income taxes receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, and long-term liabilities. As at December 31, 2000 and December 31, 1999, there are no significant differences between the carrying amounts of these items and their estimated fair values.

The accounts receivable and accounts payable balances to be received and paid in foreign currency are subject to foreign exchange risk.

14. Discontinued Operations

Effective September 1, 1998, the Company sold all the shares of its wholly owned subsidiary, Prairie Lube Ltd., which operated the Canadian vehicle maintenance division realizing a gain of \$313.

15. Earnings and Cash Flow Per Share from Operations

Earnings and cash flow per share from operations has been calculated using the weighted monthly average number of shares outstanding during the respective fiscal periods.

	2000	1999	1998
Weighted average number of shares outstanding	12,984,137	16,093,341	14,918,665
Earnings per share from continuing operations:			
Basic – before goodwill amortization	66.9¢	10.2¢	65.9¢
Fully diluted – before goodwill amortization	65.2¢	10.2¢	63.7¢
Basic – after goodwill amortization	61.0¢	7.4¢	63.6¢
Fully diluted – after goodwill amortization	59.6¢	7.4¢	61.6¢
Earnings per share:			
Basic	61.0¢	7.4¢	65.7¢
Fully diluted	59.6¢	7.4¢	63.6¢
Cash flow per share from continuing operations:			
Basic	\$ 1.19	64.0¢	\$ 1.07
Fully diluted	\$ 1.15	62.4¢	\$ 1.03
Cash flow per share from operations:			
Basic	\$ 1.19	64.0¢	\$ 1.07
Fully diluted	\$ 1.15	62.4¢	\$ 1.03

Segmented Information

The Company's three operating divisions include two reportable segments, oilfield services and the manufacturing and supply of downhole tools.

	Downhole Tools	Oilfield Services	Consolidated
Revenues	\$ 72,617	\$ 14,402	\$ 87,019
Interest expense	\$ 2,841	\$ 19	\$ 2,860
Amortization	\$ 7,421	\$ 1,479	\$ 8,900
Goodwill amortization	\$ 638	\$ 466	\$ 1,104
Income taxes – current	\$ 5,132	\$ 1,275	\$ 6,407
– future	812	186	998
	\$ 5,944	\$ 1,461	\$ 7,405
Net income	\$ 10,373	\$ 1,215	\$ 11,588
Total assets	\$ 154,060	\$ 18,334	\$ 172,394

During 1999, the Company's only reportable operating segment was the manufacturing and supply of downhole tools.

The Company operates in the following geographic segments.

	2000	1999
Revenue:		
Canada	\$ 34,213	\$ 19,152
United States	33,666	17,009
International	19,140	15,390
	\$ 87,019	\$ 51,551
Capital Assets:		
Canada	\$ 34,636	\$ 22,263
United States	19,416	15,087
International	21,542	17,547
	\$ 75,594	\$ 54,897
Goodwill:		
Canada	\$ 10,573	\$ 2,033
United States	4,863	–
	\$ 15,436	\$ 2,033

17. Change of Year End

In 1999, the Company changed the ending date of its financial year end from August 31 to December 31. Comparative results are for the sixteen months ended December 31, 1999 and the year ended August 31, 1998.

SEVEN YEAR REVIEW

Consolidated Balance Sheets

(Thousands of Canadian Dollars)	Dec 31, 2000	Dec 31, 1999	Aug 31, 1998	Aug 31, 1997	Aug 31, 1996	Aug 31, 1995	Aug 31, 1994
Assets							
Current Assets							
Cash	\$ 1,251	\$ 720	\$ 456	\$ 7,678	\$ 221	\$ 330	\$ 777
Accounts receivable	32,531	20,697	23,148	14,301	9,533	5,651	5,507
Income taxes receivable	-	1,418	-	-	-	-	-
Inventory	45,171	29,417	27,128	15,958	9,965	7,447	6,326
Prepaid expenses	698	1,485	552	562	384	118	440
Due from related party	-	-	-	-	-	-	270
	79,651	53,737	51,284	38,499	20,103	13,546	13,320
Capital assets	75,594	54,897	48,334	21,976	13,601	10,693	9,260
Franchise licenses	-	-	-	64	51	70	511
Deferred charges	1,713	605	312	181	545	712	794
Goodwill	15,436	2,033	2,152	4,284	4,067	3,759	4,383
	\$ 172,394	\$ 111,272	\$ 102,082	\$ 65,004	\$ 38,367	\$ 28,780	\$ 28,268
Liabilities							
Current Liabilities							
Bank indebtedness	\$ 23,863	\$ 10,731	\$ 11,119	\$ -	\$ 3,900	\$ 2,380	\$ 1,176
Accounts payable and accrued liabilities	15,463	9,253	9,139	7,864	6,043	3,894	7,013
Income taxes payable	2,996	-	2,904	2,553	1,034	817	1,245
Current portion of long-term liabilities	5,289	-	2,617	307	2,378	2,330	1,398
	47,611	19,984	25,779	10,724	13,355	9,421	10,832
Long-term liabilities	10,292	-	4,557	122	4,113	3,409	3,858
Employment benefits payable	449	530	565	-	-	-	-
Future income taxes	5,042	4,044	3,449	2,048	908	220	153
	63,394	24,558	34,350	12,894	18,376	13,050	14,843
Shareholders' Equity							
Capital stock	75,572	64,709	44,221	23,490	14,142	13,581	13,349
Commitment to issue capital stock	-	-	-	16,129	-	-	-
Retained earnings	34,800	23,212	22,027	12,220	5,623	2,081	(237)
Cumulative translation adjustments	(1,372)	(1,207)	1,484	271	226	68	313
	109,000	86,714	67,732	52,110	19,991	15,730	13,425
	\$ 172,394	\$ 111,272	\$ 102,082	\$ 65,004	\$ 38,367	\$ 28,780	\$ 28,268

SEVEN YEAR REVIEW

Consolidated Statements of Operations

(Thousands of Canadian Dollars)	For the year ended Dec 31, 2000	For the 16 months ended Dec 31, 1999	For the year ended Aug 31, 1998	For the year ended Aug 31, 1997	For the year ended Aug 31, 1996	For the year ended Aug 31, 1995	For the year ended Aug 31, 1994
Revenue							
- Canada	\$ 34,213	\$ 19,152	\$ 30,342	\$ 19,740	\$ 11,684	\$ 8,769	\$ 9,457
- U.S.	33,666	17,009	18,872	15,499	10,523	8,648	5,646
- International	19,140	15,390	12,075	1,151	568	-	-
Total Revenues	87,019	51,551	61,289	36,390	22,775	17,417	15,103
Direct expenses	39,802	22,080	27,611	15,283	10,734	7,349	6,483
Income from operations	47,217	29,471	33,678	21,107	12,041	10,068	8,620
Expenses							
General and administrative	15,360	16,398	10,946	6,324	3,762	2,582	2,146
Amortization	8,900	8,061	4,800	1,932	1,540	2,266	1,373
	24,260	24,459	15,746	8,256	5,302	4,848	3,519
Income before interest expense	22,957	5,012	17,932	12,851	6,739	5,220	5,101
Interest expense	2,860	2,454	825	711	772	764	434
Income before income taxes	20,097	2,558	17,107	12,140	5,967	4,456	4,667
Income taxes							
- current	6,407	316	5,874	3,796	1,034	824	1,229
- future	998	595	1,401	1,143	695	67	(45)
	7,405	911	7,275	4,939	1,729	891	1,184
Income before goodwill amortization	12,692	1,647	9,832	7,201	4,238	3,565	3,483
Goodwill amortization	1,104	462	338	790	714	624	634
Income before discontinued operations	11,588	1,185	9,494	6,411	3,524	2,941	2,849
Discontinued operations	-	-	313	186	17	(623)	(870)
Net income	\$ 11,588	\$ 1,185	\$ 9,807	\$ 6,597	\$ 3,541	\$ 2,318	\$ 1,979
Weighted average number of shares outstanding	18,984,187	16,093,341	14,618,665	11,397,835	10,824,661	10,512,034	9,326,974
Earnings per share from continuing operations:							
Basic - before goodwill amortization	\$ 0.67	\$ 0.10	\$ 0.66	\$ 0.63	\$ 0.39	\$ 0.34	\$ 0.37
Fully Diluted - before goodwill amortization	\$ 0.65	\$ 0.10	\$ 0.64	\$ 0.52	\$ 0.37	\$ 0.29	\$ 0.31
Basic - after goodwill amortization	\$ 0.61	\$ 0.07	\$ 0.64	\$ 0.56	\$ 0.33	\$ 0.28	\$ 0.31
Fully Diluted - after goodwill amortization	\$ 0.60	\$ 0.07	\$ 0.62	\$ 0.47	\$ 0.30	\$ 0.23	\$ 0.24
Earnings per share:							
Basic	\$ 0.61	\$ 0.07	\$ 0.66	\$ 0.58	\$ 0.33	\$ 0.22	\$ 0.21
Fully diluted	\$ 0.60	\$ 0.07	\$ 0.64	\$ 0.48	\$ 0.30	\$ 0.18	\$ 0.17
Cash flow per share from continuing operations:							
Basic	\$ 1.19	\$ 0.64	\$ 1.07	\$ 0.90	\$ 0.60	\$ 0.56	\$ 0.52
Fully diluted	\$ 1.15	\$ 0.62	\$ 1.03	\$ 0.74	\$ 0.55	\$ 0.47	\$ 0.41
Cash flow from operations:							
Basic	\$ 1.19	\$ 0.64	\$ 1.07	\$ 0.95	\$ 0.64	\$ 0.56	\$ 0.48
Fully diluted	\$ 1.15	\$ 0.62	\$ 1.03	\$ 0.78	\$ 0.58	\$ 0.46	\$ 0.38

CORPORATE INFORMATION

Directors and Officers

Walter Stelmaschuk
Chairman and Director

Dean Livingstone
President, CEO and Director

Michael Kennedy ^{1,3,4}
Director

Wally Kuchar ^{2,4}
Director

Derek Martin
Director

William Richards ^{3,4}
Director

Allan Sawin ^{2,3}
Director

Witold Gutter
Vice President and Secretary

Darren Stevenson
Vice President, Finance and Chief Financial Officer

Raymond Livingstone
Vice President and General Manager
Black Max Downhole Tools Ltd.

¹ Lead Director

² Member of Nominating and Succession Committee

³ Member of Audit Committee

⁴ Member of Compensation Committee

Head Office

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1507 – 4th Street
Nisku, Alberta T9E 7M9
Telephone: (780) 955-8828
Toll-free: (800) 700-7942
Fax: (780) 955-3309
Email: blackmax@nql.com
Website: www.nql.com

Worldwide

Canada: Nisku, Alberta; Calgary, Alberta; Grande Prairie, Alberta; Lloydminster, Alberta; Whitecourt, Alberta; Estevan, Saskatchewan
U.S.: Houston, Texas; Odessa, Texas; Bakersfield, California; Mt. Carmel, Illinois; Casper, Wyoming; Lafayette, Louisiana; marketing and tool stocking facilities at Oklahoma City, Oklahoma and Traverse City, Michigan; Parkersburg, West Virginia
International: Ciudad Ojeda, Venezuela; Anaco, Venezuela; Barinas, Venezuela; Santa Cruz, Bolivia; Neuquen, Argentina, Akersloot, The Netherlands; St. James, Barbados; Dubai, United Arab Emirates; facilities in Perth, Australia and Loyang Crescent, Singapore are operated through a business associate and a joint venture, respectively. For complete address and contact information see NQL's Website at www.nql.com

Banker

Canadian Imperial Bank of Commerce
Edmonton, Alberta

Auditors

Collins Barrow
Edmonton, Alberta

Legal Counsel

Anfield, Sujir, Kennedy and Durno
Vancouver, British Columbia

Stock Exchange Listing

The Toronto Stock Exchange
Symbol: NQL.A

Transfer Agent and Registrar

CIBC Mellon Trust Company
Calgary, Alberta

Annual General Meeting

NQL Drilling Tools Inc. invites shareholders and other interested parties to attend its Annual General Meeting on June 7, 2001, at 2:00 p.m. in the Wildrose Ballroom of the Sheraton Suites, Calgary Eau Claire, located at 255 Barclay Parade S.W., Calgary, Alberta.

NQL
DRILLING TOOLS inc.

1507 - 4th Street Nisku, Alberta Canada T9E 7M9

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